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SUBJECT: FEW BIDS FOR EXPLORING OFFSHORE CYPRUS

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SENSITIVE

1. (SBU) On August 16, the GoC announced the results of bids to obtain oil and gas exploration licenses off the south and southeast coasts of Cyprus. Despite speculation that the 11 available blocks could contain gas and liquids valued up to USD 400 billion and strong marketing efforts by the GoC, only three groups entered bids on three separate blocks. Bids for two blocks abutting Egypt's offshore gas fields were bid by two consortia of companies from the UK, United Arab Emirates and Norway (A Cyprus newspaper says that the companies that are participating in the consortium are the Norwegian firm DNO, the UAE company Larsen Oil & Gas -which also has Norwegian ties- and the British Increase Oil Recovery.) U.S. company Noble Energy bid on a block bordering Israel's Exclusive Economic Zone (EEZ).

2. (SBU) An official with Noble told us that they decided to make their bid only at the last moment primarily at the urging of their Israeli partners in an offshore gas platform within Israel's EEZ. The Israelis had purchased seismic data from a sounding taken in the area prior to the sounding commissioned by the GoC. The Israeli geologists felt that there was potential in the block and the new field could be economically viable if it were tied into the existing offshore Noble/Israel platform despite the deep water (5000 meters) and deep geology of the Cyprus block. Also encouraging Noble was Cyprus' status as an EU member, considered a "big plus" because "this means laws won't change on a whim." An outstanding issue for Noble is the lack of a treaty demarcating the boundary between the Israeli and Cypriot EEZs. Cypriot officials told Noble that a treaty should be completed "very soon." Comment: Local embassy contacts do not seem as certain that an agreement will be reached anytime soon. End Comment.

3. (SBU) The lack of bids, especially from any of the oil majors, has been criticized by opposition media in Cyprus. The reasons given by our sources for the lack of bids were 1) political risk from strong Turkish and Turkish Cypriot opposition to the process (see ref tel B); 2) lack of detailed seismic data and, given how busy oil companies are looking for deposits, a lack of geologists to analyze the data available; 3) possibly a desire by companies to sit back and observe the first round of bidding before making a decision and; 4) the seismic data and results from elsewhere in the region indicate a low likelihood for oil (as opposed to gas), and there remains a strong preference among oil companies to invest in oil assets first. Bidders were found only for those blocks near existing operating fields in Israel and Egypt. The Ministry of Commerce has

already said that it expects the bidding for two additional blocks (abutting the Lebanese border) next year to be much stronger because 3D seismic data will be available for those blocks. This was echoed by the local General Manager for BP who claimed his company would be a bidder for those blocks.

14. (SBU) Next steps towards actual drilling calls for a "Consultation Committee" to consider the bids received and measure them against the published Guidance Note for evaluation. The Committee will provide its recommendations to the Minister of Commerce by December who will then present his advice to the Council of Ministers. Noble hopes to enter contract negotiations by early next year and intend to send a high level delegation to meet Cypriot officials this fall.

15. (SBU) Comment: The GoC, helped by a media prone to hyperventilation, over-hyped the likely bidding leading to the current letdown. Nevertheless, it could be a political positive if contracts are signed just before the February presidential elections. The bidding specifications allowed only companies with the financial and technical wherewithal to bid, preventing bids from purely financial players or small wildcatters. There is a possibility that bids could be entered late by firms that wanted to see how things went before acting. The Turkish saber-rattling was a factor in the lack of bids, but given oil companies' long experience dealing with politically dicey situations, this was probably not the major reason for the lack of bidders.

SCHLICHER